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AZ CORP COMMISSION
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Arizona Corporation Commission
DOCKETED

OCT 18 2011

DOCKETED BY

October 18, 2011

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

RE: Arizona Public Service Company's Long-Term Debt Reporting
Docket No. E-01345A-08-0172

Commission Decision No. 71448, Section 13.4(b) "Financial Reporting" orders Arizona Public Service Company ("APS") to report:

> v. Information regarding any long-term debt issuances and their impact upon APS' capital structure and FFO/Debt ratio within 60 days of such infusion.

Further, APS was also ordered in Decision No. 69947, at page 18, line 21 to report:

> ...on each occasion when Arizona Public Service Company enters into a long-term debt agreement, Arizona Public Service Company shall file with Docket Control as a compliance item in this docket, a description of the transaction and a demonstration that the rates and terms are consistent with those generally available to comparable entities at the time...

Pursuant to these requirements, on August 22, 2011, APS priced $300,000,000 of senior unsecured 30-year bonds. The bonds priced at a yield to maturity of 5.094% based on a 30-year U.S. Treasury bond yield of 3.394% and a credit spread of 170 basis points. The proceeds from this issue, along with other cash resources of the Company, will be used to payoff some $400,000,000 in long term debt maturing this month.

In compliance with the reporting obligations contained in Decision No. 71448, Section 13.4(b), APS submits the following information:

- The long-term debt issuance, combined with the debt retirement such issuance made possible, had the following impact on APS's capital structure under both the S&P and traditional rate making methodology:

S&P Capital Structure Methodology

	Pre-Long-Term Debt Issuance (6/30/2011 as adjusted)		Post- Long-Term Debt Issuance	
	$ in M	%	$ in M	%
Debt	$4,601	55.1%	$4,501	54.6%
Common Equity	$3,746	44.9%	$3,746	45.4%
Total	$8,347	100.0%	$8,247	100.%

Traditional Ratemaking Methodology

	Pre-Long-Term Debt Issuance (6/30/2011 as adjusted)		Post- Long-Term Debt Issuance	
	$ in M	%	$ in M	%
Debt	$3,383	46.7%	$3,283	45.9%
Common Equity	$3,865	53.3%	$3,865	54.1%
Total	$7,248	100.0%	$7,148	100.0%

- The estimated impact on FFO/Debt was 0.5% changing from 20.6% to 21.1%.

In compliance with the reporting obligations contained in Decision No. 69947, APS submits Attachment A to this letter which demonstrates that these rates and terms are consistent with those generally available to comparable entities on August 22, 2011.

To determine the interest rates that comparable entities would have been able to obtain on 30-year bonds issued on August 22, 2011, the information presented on Attachment A shows recently issued bonds rated in the range of Baa1/BBB+ to Baa3/BBB-. Please note that the average credit spread for the selected group was 156 basis points. These credit spreads represent the additional interest above rates that could be earned on comparable maturity U.S. Treasury bonds that investors were requiring on August 22, 2011. Also note the average maturity of the bonds in the group was 27.01 years and shorter maturities typically have lower spreads.

Further, the "Comparisons" section of Attachment A shows how this information is used to demonstrate that the yield on the $300,000,000 of bonds issued by APS is consistent with what was available to comparable entities on August 22, 2011. To complete the comparison each of the credit spreads is adjusted for maturity (since the 30 year maturity of the APS bonds is longer than the average maturities selected bonds). A "New Issue Premium" is also included to reflect additional interest required by investors to incent them to invest in new bonds rather than currently outstanding bonds. These adjustments result in an "Indicative New Issue Equivalent" credit spread of 171 basis points. Comparing these spreads to the 170 basis point credit spread that APS paid on its issue demonstrates that the APS rates and terms were consistent with those generally available to comparable entities on August 22, 2011.

If you have any questions regarding this report please call Zachary Fryer at 602-250-4167.

Sincerely,

Jeff Johnson

JJ/sl

cc: Brian Bozzo
Steve Olea
Terri Ford
Barbara Keene
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Long-Term Debt Issuance Industry Comparision

Issuer	Ratings Moody's	S&P	Amt ($mm)	Coupon	Maturity	As of 8/22/2011 Credit Spread (bp)
CenterPoint Energy Resources	Baa2	BBB	300	5.850%	01/15/41	+155
Cleco Power LLC	Baa2	BBB	250	6.000%	12/01/40	+140
Southwestern Electric Power	Baa3	BBB	350	6.200%	03/15/40	+180
Pennsylvania Electric	Baa2	BBB-	250	6.150%	10/01/38	+173
Appalachian Power	Baa2	BBB	500	7.000%	04/01/38	+165
CenterPoint Energy Resources	Baa2	BBB	250	6.625%	11/01/37	+159
Appalachian Power	Baa2	BBB	250	6.700%	08/15/37	+164
Jersey Central Power & Light	Baa2	BBB-	275	6.150%	06/01/37	+142
Tampa Electric	Baa1	BBB+	250	6.150%	05/15/37	+130
CenterPoint Energy Resources	Baa2	BBB	150	6.250%	02/01/37	+150
				Average	**27.01 years**	**+156**

Comparisons

	Average Maturity (yrs)	Credit Spread
30-year Baa1-Baa3 bonds	*27.01*	156 bps
Adjusted for Maturity (1)	*30.00*	*5 bps*
Adjusted for New Issue Premium (2)		*10 bps*
Indicative New Issue Equivalent		***171 bps***

Issuer	Ratings Moody's	S&P	Amt ($mm)	Coupon	Maturity	Spread
Arizona Public Service	Baa2 /	BBB	300	5.050%	09/01/41	+170

Notes:

(1) The adjustment reflects the additional spread investors would require to extend the maturity to 30 years

(2) New issue premium estimate based on recent market trends for BBB-rated issuers

Source: J.P. Morgan